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# S P E E C H

BY THE

## HONORABLE JOHN ROSE,

MINISTER OF FINANCE, CANADA,

ON INTRODUCING THE

### RESOLUTIONS ON BANKING AND CURRENCY.



OTTAWA:

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# BANKING AND CURRENCY.

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HOUSE OF COMMONS, OTTAWA.

FRIDAY, 14th May, 1869.

HON. MR. ROSE said :—Mr. Speaker, in rising to move the resolutions on the subject of Banking and Currency of which I have given notice, I certainly feel that I stand in need of that indulgence at the hands of the House which I believe I shall receive, while I endeavour to set forth what are the views of the Government on this important question. The early expiry of the charters of certain Banks in the Provinces of Ontario and Quebec, and the applications for new charters and for the increase of capital on the part of Banks in the Maritime Provinces as well as those in the old Province of Canada render it necessary that the Government should now explain to the House and the country the views they entertain with reference to the whole question. There has been so much misconception on the subject, evidenced by articles in the public press and otherwise, that it doubly becomes the duty of the Government to take the earliest possible opportunity of announcing fully and explicitly the policy which they believe the public interest requires to be carried out, in order that the country may have time maturely to consider it, and that the Government itself may have the aid of the practical suggestions which I have no doubt we shall receive from those who are competent to offer them. In this way we may be able to accomplish, in the best possible manner what, I believe, is the desire of every member of this House, without distinction of party, the placing of our banking institutions on a permanent and wholesome basis. (Hear, hear.) It is a question which ought not to be brought within the arena of party strife at all, and I have no fear that when the Government have explained their policy and shown that it has been framed solely with a regard to the great interests of the country, we shall receive the co-operation of every member of this House who desires to see our whole system of Banking and Currency in a sound and healthy condition. (Hear, hear.) I may say at once, Mr. Speaker, with regard to the resolutions which I am about to place in your hands, that we desire to allow ample time for the House to consider them deliberately. We have no desire to force a particular theory on the country, without the amplest opportunity being afforded of considering how far that theory can with advantage be applied to the present circumstances of the various Provinces, and therefore, while I shall place these



resolutions in your hands to-day, I shall not press for action on them with undue haste, but shall allow ample time for their deliberate consideration by all the interests that may be affected by them.

In the first place—in order that the House may fully understand at once the importance and the difficulty of the question—let me point out what the different systems are that prevail in the various Provinces of this Dominion. I shall begin, first, with the Province of Nova Scotia—adverting only to those provisions of the charters under the existing system which directly affect the public interest or public safety, and not to those minor provisions which affect the interests of the shareholders, as among themselves. In the Province of Nova Scotia, there is one system in operation—in the Province of New Brunswick there is another—and in the old Province of Canada, there is a third. With regard to one main provision of the charters of the various Banks—that, namely, as to their circulation—in the Province of Nova Scotia, there is no special restriction with reference to the amount of the circulation, and no provision that the Banks should be required to keep a certain amount of specie to meet the circulation. There is simply a general provision that their total liabilities shall not exceed three times the amount of their capital and of the deposits they have in hand—the deposits being apparently considered, not as they actually are, a liability of the Banks, but a source on which they can rely for means to extend their circulation. This provision, which obtains in most of the Banking charters of Nova Scotia, is now asked at the hands of this House with reference to certain charters that are being sought for new Banks projected in that Province. In the Province of New Brunswick, the principal restriction, as regards the point to which I am now adverting is, that the total liabilities shall not exceed twice the amount of the capital—and one of the oldest and most respectable of the Banks of that Province is now asking at our hands an extension of its capital upon the basis of that provision, as contained in its original charter. Coming now to the late Province of Canada, we find the general provision is that the circulation shall not exceed the amount of the capital stock, *plus* the specie they have in their vaults, and *plus* the amount of Government securities they have in hand. Therefore, in Nova Scotia, the Banks may have a circulation of three times the amount of the capital, *plus* their deposits; in New Brunswick, twice the amount of capital; and in the old Province of Canada, a circulation equal to the amount of their capital, *plus* the amount they have in hand of specie and Government securities; and in none of the of the Provinces is there any provision requiring any amount of specie for purposes of redemption to be kept available.

MR. SPEAKER, the whole question of our Banking and currency is now forced upon the consideration of the Government and of this House by the position in which we find ourselves, in consequence of the various applications which are before us for renewals of the charters of Banks in the late Province of Canada which are about to expire; for charters for new Banks; for an extension of the capital of Banks; and for new chartered

rights in the Maritime Provinces on the footing which already exists. Under these circumstances, we are forced to an examination of the existing provisions, and the effect they may have in future, if continued; also to a consideration of the propriety of having a uniform policy, by which the incorporation of our Banking institutions shall be hereafter guided. Of course, in adopting such a policy, all its bearings and details have to be very carefully considered, in regard to its possible operation on the public interests. I admit at once, as I am sure every member of this House must admit, that in the past, a prudent, conservative, and cautious management has on the whole distinguished the operation of the Banks, both of the Maritime Provinces and of the late Province of Canada. At the same time it is our duty to enquire whether we ought to perpetuate the provisions to which I have just now adverted; or whether in the enlarged sphere now being opened to us, the continuance of those provisions would not be a source of danger to the public interest. (Hear, hear.) It will be perceived at once, that, without any further restrictions than exist in the present Banking charters, it is possible for a Bank to begin its operations and to lend a large amount to the public in the shape of circulation, without having any capital actually paid in. When a certain number of persons have subscribed the amount of stock that is required to start a Bank, the notes of the subscribers for that stock may be discounted, and the Bank will thus get its circulation into the hands of the public with no real substantial capital to represent it, and no security to the public except the credit and the mere promise to pay of the individuals who have started the Bank. Any one can see that, so long as there are no better provisions than are found in the existing charters, it might be possible so to misuse the powers conferred on Banking institutions, as in this way to get afloat—with no specie behind it—a circulation equal in Ontario and Quebec to the full amount of the capital subscribed, in New Brunswick to twice, and in Nova Scotia to thrice that amount. I have to ask then the calm and deliberate consideration of the House and the country to these weak points in the existing system, and to the question whether or not they are to be perpetuated in the future. Then follows another difficulty. I have said that the circulation may be brought out without there being any capital behind it to represent it—but, even supposing the full amount of capital has been paid in, not merely in promissory notes of subscribers which they may get discounted, but in actual coin, so that a real *bona fide* capital has been subscribed and paid in, and a circulation issued, the House will see it is quite possible for that circulation to be kept up to the full amount permitted by the charter after the whole capital has been entirely annihilated, and there is nothing whatever left to which the public may look. For I would draw the attention of the House to the fact that there is no provision requiring any Bank to keep in its vaults an amount either of specie or of Government securities to represent its circulation. So that it is possible, I say, that the present system may be so misused that a Bank, without any paid in capital, may get its circulation into the hands of the public, and equally possible that that cir-

culation may still be outstanding, after all its capital is gone, and no security whatever left for the bill-holders. I am not going to say that hitherto any very overwhelming calamity has overtaken the country, as the result of this state of things. But it is only necessary to consider for a moment how large and wide is the sphere now being opened for the operations of our Banks, as compared with what it has previously been, in order to see how imperative it is that our Banking institutions in the future should be placed on a sound and wholesome basis, especially with reference to this point where the public interest is particularly concerned. Let me, however, illustrate the proposition I made a moment ago, by a reference to one or two incidents in the history of our Banks. I shall first refer to the case of the Bank of Upper Canada. We know that, at the time of the failure of that institution, it had in the hands of the public a circulation of about \$800,000—and the amount would have been very much greater, if the Bank had not had a deposit belonging to the Government of nearly a million and a half. If that large deposit had not been left in the Bank, the amount of circulation in the hands of the public would have been very much more than it was. Now, what were the facts in this case? It is notorious that, as has been shown by subsequent investigation, the circulation remained in the hands of the public, long after there was no substantial capital to represent it. The whole of the capital was gone, and the public were left to look only to that provision in the charter which gave a remedy against the shareholders to an amount equal to their stock. While the circulation out was \$700,000, the whole amount of coin which the bank had to redeem it was but \$39,000, and, in addition to the \$1,400,000 they owed the Government, they owed private depositors about \$400,000 more. Yet they had fulfilled all the statutory conditions which the legislature or the country had thought necessary to impose on them, and had regularly published their statements of liabilities and assets! I have heard it said that, after all, the loss to the public in consequence of any failure of a Bank has not been very great, and that it is not necessary therefore to make any change in the system. I cannot understand the force of such an argument. We all remember the general distrust which attended the failure of this institution, and the distrust which attended the failure of another institution, the Commercial Bank, and the panic which seized the bill-holders for some days, and induced them to sacrifice their bills at a great discount and of course a loss. This discount and this loss would have been greater, but for the peculiar provision, which however legal it may be, scarcely seems just—that a debtor might tender the depreciated notes of the Bank in payment of his obligation. It is no doubt quite legal, but it certainly does grate on one's sense of justice, that a debtor, quite able to pay twenty shillings in the pound, may, by purchasing depreciated securities, pay off his obligations with one half or one quarter their real amount.

It is not however my desire, Sir, to found the propositions which it will be my duty in a few moments to submit to the House so much on the evil results which have attended this system in the past as on those which



must almost inevitably attend it in the future. If it were necessary I should go on to refer to the circumstances which attended the failure of the Commercial Bank of Canada, the failures of the Bank of Westmoreland and the Central Bank in New Brunswick, and the failure which occurred only the other day of the Commercial Bank of New Brunswick. All these failures have occurred within a few years—and in the case of all of them, the circulation at the time of the failure was found to be very large indeed in proportion to the amount of funds that was found in the vaults, available for the bill holders. I do not wish so much to trace the causes of the failure of these institutions to the system, as to point out that, when the failures did occur, the system was found to work very serious and very great detriment indeed to those persons who were not voluntary holders of the notes of the Banks but who were compelled to take them as the circulating medium of the country. And I refer to this for the purpose of showing how important it is that we should be guided by some general principle in this matter, instead of having a large number of institutions existing with very diversified provisions in respect of the terms on which they can issue their circulation. There are at this moment in the Dominion, I think, about 40 or 42 chartered banks, with capitals varying from \$60,000 to \$6,000,000. And I will shew—without mentioning names—what is the proportion borne by the specie of some of those Banks to their circulation. One Bank, with a capital of \$129,000, has an average circulation of \$154,000, and a specie reserve, by the last statement, of only \$12,000. Another, with a capital of \$200,000, has a circulation of \$205,000, and but \$29,000 of specie. A third, with a capital of \$72,000, has a circulation of \$154,000 and only \$32,000 of specie. And now I wish to call the attention of the House to this point, that although the past management of our Banks under the system I have just explained may not have been attended with any general or overwhelming calamity to the country, the case is entirely different when we come to consider the danger of perpetuating such a system under the altered circumstances in which we now find ourselves when we are no longer merely a number of isolated Provinces. Hitherto the conservative management of the Banks has been aided by the fact that the various Provinces have been separated from each other commercially and politically. The sphere of the operation of a Bank hitherto has been confined to its own Province, and possibly to its own special locality. The difficulty of communication prevented the circulation from extending all over the country. There is the fact too that the management of the local Banks was generally in the hands of men who had a local standing both socially and commercially, which they would inevitably lose by the suspension of the Bank with which they were connected. But that state of circumstances has passed away and now that the Provinces are connected politically; now that they are every day becoming more connected commercially; now that the means of communication between all parts of the Dominion are becoming more and more rapid and easy; now that we have a prospect that in a very short time the operations of any of our Banks may extend

from British Columbia on the one side to Halifax on the other—we have to consider not merely how this system which the Act of Union specially delegates to the Parliament of the Dominion and which circumstances now force us to review was suited to our past condition, but whether it be a system which, with safety to the public interest, we can perpetuate and extend until its operation shall embrace the whole of British North America. (Hear, hear.) The important and serious question we have now to consider is not, I repeat, whether this or that local Bank may have its charter extended on the old principles, within its former limited sphere of operations, but whether it shall be continued on the old footing now that its sphere of operations is enlarged, when its agencies may be established all over the Dominion, and results which could not possibly have arisen under the old state of things may very probably arise in the new condition of political and commercial existence in which we find ourselves. Now, Sir, I think no one will deny that it would be very much for the interest of the country that there should not be a great diversity either in the character of the circulation, or in the nature of the security upon which that circulation rests. We are to be engaged very shortly in very large and extensive Public Works in various parts of the Dominion; the temptation to over-circulate will soon be very great; and it is, I do think, of essential importance to the interests of the country, that its circulating medium should be placed on a sound and uniform basis. I do not mean to say that substantial interests should be sacrificed or even cramped for the sake of theoretical symmetry. At the same time the question how the circulation of the country, not only for the present time but in years hereafter, may be placed and maintained on a satisfactory footing, is one of those considerations which must have its due weight in the minds of hon. members, when they are dealing with the question. The Government has certainly no special object of its own to gain by the substitution of a different for the existing system. The Government is not embarrassed by any pressing wants, and has only to consider in a single-minded manner, how it can put the Banking institutions of the country on the soundest and most secure foundation. But the Government feels, and I do not think that any one who has only a single eye to the interests of the country can feel otherwise, that the continuance of the present system would not be satisfactory. I am free to admit that we must not deal with existing interests or existing institutions rashly or inconsiderately. No man can be more averse than I myself am to anything in the form of rash innovation, or to the adoption of any measure which would tend to derange the trade relations of the country. We must deal cautiously, discreetly, and circumspectly, with interests we find in existence; but we cannot blind ourselves, and we ought not to blind ourselves, to the danger which experience has shown to attend the present system. Rash and inconsiderate dealing with existing interests and existing institutions is criminal on the one hand, but mere stupid inaction and indifference, and an indisposition to deal boldly and rightly, and to place the currency of the country on

sounder footing, is not less criminal, on the other. (Hear, hear.) Now, Sir, with reference to this question of having a circulating medium of as uniform and safe a quality as possible, let me call the attention of the House to the inconvenience, not to use a stronger term, that existed in the United States in the matter of bank currency, before the present National system was introduced. Every one will remember that, previous to 1863, when Mr. Chase introduced the new system, it was impossible for any man not engaged in banking to know what was the value of the notes that come into his hands, while even those who were engaged in business—from the largest merchant to the keeper of a corner grocery—had to keep on his desk a Bank Note Detector almost as large as a Family Bible, and had to be constantly getting new editions of it, in order to know what notes were counterfeit, what genuine, and as regarded even the genuine, to know which were worth par, and at what rates of discount the others might be taken. There were at that time in the United States no fewer than 1,300 Banks whose notes were daily or weekly reported upon by the various Bank Note Detectors. Let me point out for a moment what were the consequences of this. I do not mean to say, that, with the conservative and cautious nature which prevails in this northern country, we are ever likely to rush to that extreme of speculative and reckless banking which prevailed in the United States before 1863. But the very fact that the boundaries of this country are becoming so extended will make the temptation so great as to render it possible that those evils, perhaps in a modified degree, may be experienced here, unless we introduce at once a sound and healthy system, on the basis of which alone we shall hereafter grant corporate rights to Banking institutions. Let me just read to the House a passage from Hunt's Merchants' Magazine, for May, 1863, showing the practical working of the system which formerly prevailed in the United States:—

If any man has the curiosity, or will take the trouble to study the statistics contained in either of the quarto volumes which are weekly published in all the large cities under the name of "Counterfeit Detectors," he will find that there are in existence nearly sixteen hundred different banks, and that from these banks are daily being issued more than *ten thousand* different kinds of bank notes, and that a large portion of these issues have been frequently copied and put in circulation by the counterfeiter and his copartners in business.

We have to-day, in every loyal State with the exception of California and Oregon, a currency issued and encouraged by sanctions of law, more than forty different banking laws, depending on the judgment, caprice, or iniquity of the Legislatures of thirty-four different States, and which are changed or repealed as often as pliant or plastic legislators can be moved or moulded by the influence of monied institutions or corporations, until now both the banker and the bill-holder require a library of bank statutes to give them information which ought, by its simplicity, to be at all times on the tongue's end of every business man.

A foreigner or a stranger travelling through the country, at the hotel, in the railroad car, on the river or lake, by friend or foe has offered to him in exchange for gold, slips of engraved paper similar in size, but as often worthless in value, as equal the sum they represent and promise to pay. In Massachusetts and New York the inconvenience is comparatively trifling, for the bank currency is composed of the issues of New England and Middle States; but in the West the peo-



ple have suffered for years from the issues of almost every State in the Union, much of which is so irredeemable, so insecure, and so unpopular as to be known by opprobrious names rather than the money it pretends to represent. There the frequently worthless issues of the State of Maine and of other New England States, the shimplasters of Michigan, the wildcats of Georgia, of Canada and Pennsylvania, the red-dogs of Indiana and Nebraska, the miserably engraved "rags" of North Carolina and Kentucky, Missouri and Virginia, and the not-soon-to-be-forgotten "stump-tail" of Illinois and Wisconsin, are mixed indiscriminately with the *par* currency of New York and Boston, until no one can wonder that the west has become disgusted with all bank issues, and almost unanimously demand that such a currency shall be taxed out of existence, and give place to a uniform national currency.

The Secretary of the Treasury proposes a remedy for these evils. He proposes to issue currency to the different banking institutions of the country; but with the exception of the name of the corporation, there is no reason why all the notes of the same denomination should not be precisely alike. In place of the ten thousand different Bank notes now issued, with thousands of devices, serving to bewilder the holder, under this system we should have but *ten* bank notes, each with a distinct character of its own, with its vignette and its minutest die and engraving so familiar and expressive that no one need ever be deceived.

This will suffice as an illustration of the extreme inconvenience, not to say disaster, which resulted from this promiscuous circulation of the notes of Banks, established in various localities all over the Union, and each of which had a different degree of security to give to its note-holders. (Hear.)

I now come to consider one of perhaps the most difficult points connected with the question. Let it be remembered that we have already on the Statute book charters for about 40 Banks; that there are applications this session for, I think, five or six more; and that the operation of all these Banks may extend from the Atlantic to the Pacific. I think it will now be admitted that the principal feature which it is the duty of the Government to consider in this matter is the relation in which the Banks stand towards the public in reference to circulation, for while the business of Banking proper should be left to private enterprise and private capital, without Government interference, we think the Government is bound to see that the circulation which the public at large must take—as to which they are not the voluntary creditors of the Banks—is placed on as sound and wholesome a footing as possible. It is the duty of the Government to see that when a farmer parts with his bushel of grain, the bills he gets for it shall be equivalent to gold; that, when the mechanic is paid for his week's work, he can turn all the bills he gets into gold, without loss; that, when the tradesman or labourer is paid for his commodities or his hard labor, he shall not be exposed to loss or possible wrong, with regard to the money he receives, by taking that of whose actual value he has no means of being certain, but which the Legislature of the country has authorised parties to issue in such a way as to be considered equal to coin. The main consideration for the Government to keep in view with reference to Banking is that the currency of the country shall be of a sound and reliable character, such as every man may take with the most perfect confidence—and all the other operations of Banks may be left to individual enterprise and individual



management, no attempt being made to restrict them where the interests of the public do not require that they should be restricted. I may say that this matter is one which ought not in any way to be made a party question. Considering the immense interests that are involved in it, directly affecting the welfare of the country, it should be treated as above and beyond all mere party considerations. It is our duty to consider what has gone before, and, although we may be satisfied that the system in the past has been open to most serious objections, we must nevertheless take care not to deal ruthlessly, inconsiderately, or precipitately with existing institutions or with the existing system. We must remember that it has been the growth of a state of things very different from that in which we are now. For we have hardly yet begun thoroughly to realize that we are emancipated from that mere provincial state of existence, to which Banks of \$20,000, \$30,000, or \$40,000 of capital might be very well suited, and that we have entered on a national state of existence, having the Pacific on one side of us and the Atlantic on the other. (Cheers.) But it becomes us to consider, under these altered circumstances, what will be the effect if we fall into the error which other countries have fallen into of permitting Banks, wherever situated, an unrestricted power of sending out their circulation throughout such a territory. With such weighty responsibilities resting upon us we ought to pause and take care that we do nothing precipitately, and we should be especially careful that those institutions which have grown up under the present system should have the fullest and amplest opportunity of gradually accommodating themselves to the new state of things which it may be found necessary, in the public interest, to introduce.

Let me now mention the position in which the Bank circulation of the Country at present stands. I need scarcely ask the House to keep clearly before it the distinction there is between the Banking capital of the Country and its circulation, as it is only to the latter that the resolutions the Government are about to submit have reference. It will be found, in a few moments, when I have proceeded somewhat further with my explanations, that is not the desire of the Government to interfere in any way with charters which have not expired, but that they will be left to their own natural operation during the period they have yet to run. We do not wish to interfere in any way with corporate rights, but will allow them to continue as long and as fully as was intended by the Legislatures of the various Provinces which have granted them. In speaking of the circulation then, I refer specially to that of the Banks of Ontario and Quebec, with which it is necessary that we should now deal, as their charters will very shortly expire. The average circulation of the late Province of Canada—including the issue of Provincial Notes—is about \$12,000,000. The highest circulation ever reached was \$15,100,000—which was the amount issued last October—there being thus a margin between the highest circulation and the average of \$3,000,000. Let me now state what is the amount of the banking capital. At this moment, the aggregate capital of the Banks of Ontario and Quebec is \$30,000,000—or twice the amount of the

highest circulation. And they have in addition to that, \$31,600,000, in the shape of deposits, to use for the business purposes of the country; so that over and above the highest point of circulation ever reached, the Banks have \$46,000,000 of available cash for the general purposes of the trade and commerce of the country. The average circulation then is to the available means of the Banks, in the proportion of 12 to 61, and the highest circulation in the proportion of 15 to 61. It is important to bear this in mind, that the circulation of the country is not by any means equal to the paid up capital of the Banks, that it has not in fact reached more than one half that amount—and that the Banks, in addition to the capital, have upwards of \$30,000,000 available, in the way of deposits, for Banking operations. It will therefore be observed that the average circulation represents only about one-fifth of the means which the Banks have at their disposal for carrying on the commercial business of the country.

And now, Sir, I come to inform the House, without further preface, of the policy Government have to propose with reference to this matter. We propose, Sir, to allow the Banks to continue as they are, without any change whatever in their condition, or any further restriction upon their operations until the 1st June, 1871—that being the time when their charters expire; the provision in their charters being that they shall continue in force until the 1st July, 1870, and thereafter till the end of next session of Parliament. We therefore propose that, until the 1st July, 1871, the Banks shall be left in possession of their existing charters, but that after that time they shall gradually reduce their circulation by 20 per cent a year, until the whole shall ultimately be replaced by secured notes which shall be a legal tender. That is to say, for the year ending July, 1872, they shall be allowed to circulate 80 per cent of the highest circulation they had during the year 1868. During the next year, they will replace 20 per cent more of their circulation by Government securities, and so on, replacing 20 per cent per year, until July, 1876, when the whole circulation will be replaced by Government securities. By permitting this gradual and almost imperceptible process, the Government endeavour so to accommodate the change to the circumstances of the Banks, that the withdrawal of the present circulation will not be felt as in any way injurious to them, and will not lessen the facilities they can give for the accommodation of the public. I will presently shew what will be the practical operation of this plan. By figures that will be understood by the House and country, I will shew how small is the percentage either on their circulation or their discounts which this will force them to invest in gold or its equivalent. I will shew that, while we felt the full force of the difficulties connected with the present system, while we were fully alive to the dangers and possible evil consequences to the country in the future, if we did not apply some remedy to a state of things which I am satisfied there is not a member of this House but believes to be unsound—while we felt it would be wrong in us to perpetuate a system which had so many defects inherent in it—we have been at the same time sensible that we must introduce the new system cautiously, gradually, almost imperceptibly, in order

that the institutions to be affected by the change need not be alarmed, or be under the apprehension that they will be deprived in any appreciable degree of the facilities they have heretofore enjoyed for carrying on the commercial operations of the country. I think it is our duty, while we endeavour to guard the public interests, to take care that we do not with rash hand force this new theory too suddenly, so as to disturb the ordinary course of business. We hope in this matter to be able to avail ourselves of the practical experience, not only of the bankers, but of the merchants of the country. We hope to be able to carry with us the intelligent portion of both those classes. We believe we shall derive great benefit from taking them into council with us, and we shall deeply regret if it shall be otherwise in consequence of any of them taking up the notion that the Government is actuated by any other motive than a single-minded desire to promote the public interest. I regret very much that, in anticipation of the announcement of the Government scheme, there has been an excitement which I think will be found not to have been warranted by the nature of the policy, as I am explaining it to-day. I am aware there has been an effort on the part of certain institutions to create a feeling against any change which might be proposed by the Government in the general interests of the country. I think it would have been better if they had waited for the announcement of our policy, with the disposition to consider calmly and dispassionately what we were going to propose. I should have been glad if they had taken this course, and would have been happy to have received such suggestions as might have been likely to improve the measure, or lessen any injurious effect which the change might be supposed likely to have on the public interest. I think it would have been much better if they had waited in this spirit, as they might very well have done, assured that the Government would not be precipitate with a measure of this kind, instead of creating an excitement in the country against the measure before its character was understood. They ought to have known that what was for the general interest would be for their interest also, for the Banking institutions of the country cannot prosper, unless the country itself is in a prosperous state. The prosperity of the one is inseparably connected with that of the other. It may be that a Bank might for a short time appear to prosper by getting out an excessive amount of circulation, but depend upon it that this prosperity cannot last, if the circulation be not on a sound basis. There ought therefore to be no divergence of interest in this matter between the Banks and the country at large. There is certainly no hostile feeling on the part of the Government towards the Banks. On the contrary, the Government feel that it is indispensably necessary that the Banks be in a prosperous condition, in order that they may carry on those important commercial operations, the success of which is essential to the prosperity of the country. We desire to consider how gradually and imperceptibly the change can be introduced, so as not on the one hand to derange the operations of the Banks, or on the other to interfere with the interests of the public. And I hope, when the explanations I am now making are fairly understood and calmly considered by the gentlemen in-



terested in the various banks, that instead of setting themselves against any change which will tend to give the public more security—for that is the sole object the Government have in view—they will cordially co-operate with us in the attempt to place the circulation of the country on a sound basis. This is all we ask of them, their co-operation; and every man who is desirous that the general credit of the country shall be promoted by the establishment of a sound and uniform currency, should give us at least that. (Hear, hear!) Now, Sir, let me ask the attention of the House to some of the objections which may be made to the proposition of the Government. It may be said, that it will needlessly curtail the facilities which the Banks now possess for carrying on the business of the country. We propose that ultimately, that is to say, in seven years from this time—for I am willing to put the case on the most unfavorable footing as regards this argument—the footing on which the arrangement will ultimately rest, passing over the intermediate period of transition until the whole Banking system is accommodated to the ultimate results which the Government desire to bring about—we propose, I say, that ultimately, in seven years from this time, the whole circulation of the country shall be based upon Government securities. Let us see then how much the Banks will have to provide in that time, in order to accommodate themselves to that state of things. I have stated that the average circulation of the country is \$12,000,000, and I shall assume that this is the amount of circulation which we propose to have based on Government securities. At present I am taking the circulation of the Banks of old Canada, that is, of the Provinces of Ontario and Quebec as a whole. I shall presently consider the operation of such a scheme, as it affects the Banks of Ontario; but, just now, I am to consider its effect on the Ontario and Quebec Banks taken together. The circulation then is \$12,000,000. The average amount of specie which they held last year was \$8,900,000. They held also Government securities to the amount of \$3,300,000. These two amounts together make up in round numbers \$12,000,000. Well, it is proposed by the resolutions that the circulation shall ultimately rest upon Government securities, which shall be deposited by the Banks, and on which interest shall be paid to the Banks, an equal amount of secured notes being delivered to them in exchange. This will absorb the \$12,000,000. It is further proposed that, in order to meet these notes, the Banks shall keep a reserve of specie to the amount of 20 per cent of the circulation, and of one-seventh of their deposits at call. The general features of the scheme are simply these, that in return for Government securities deposited with the Government, the Government will deliver to the Banks circulating notes, on much the same principle as the National Bank Currency of the United States is issued. These notes will be of uniform appearance, and will bear on their face that they are secured by deposits of Dominion securities; the only difference between one note and another being that each will purport to be issued by the particular Bank to which it is delivered, and that the notes delivered to each Bank will be signed by an officer of that Bank.



Mr. GIBBS.—I should like to ask the hon. gentleman, whether, as the circulation of the Banks is displaced, he intends to make it compulsory on them to replace it at once by the Government circulation. We have been told that their circulation is to be reduced 20 per cent. per annum, to be replaced by Government notes, for which the Government will receive Dominion securities. Is it intended to make this compulsory on the Banks?

Hon. Mr. ROSE.—Certainly not. We do not intend to make it compulsory on the part of the Banks to have any circulation at all. If they choose to carry on the ordinary business of Banking, without issuing notes, they may do so. But, if they wish to continue a circulation, they must replace their present issue by Government notes, to the extent of 20 per cent. each year after July, 1871. If they do not choose to take this course, they will have to contract their circulation 20 per cent. each year, and I scarcely think it will be found for the interest of the Banks to do so. I shall presently explain how little the Banks will find their powers curtailed, in consequence of the very gradual way in which the change will be introduced. I have said that the Banks will have to keep a specie reserve of 20 per cent. in gold, to meet the circulation, and of one-seventh of the amount of their deposits at call. In this matter, we distinguish between deposits on call, and deposits bearing interest. We regard the deposits on call as representing the commercial balances from day to day of the customers of the Bank. But when a person goes to a Bank and deposits a sum of money at a particular rate of interest, it is the same as making an investment with that Bank, and the depositor is responsible for the exercise of his own judgment with reference to it. Voluntary deposits at interest must be looked upon as investments, with which it is no part of the duty of the State to interfere, for an individual lending his money to a Bank is just like a person investing in any particular security, or lending to A. B. or C.; and it is his own business to be satisfied as to the solvency of the institution to which he entrusts his money. But the case is entirely different with deposits at call. These represent the balances of a day's operations. A merchant receives a dozen cheques in the settlement of a day's operations. He cannot very well refuse them, and, to the extent of those cheques, he is the creditor of the Bank, but not voluntarily. It has therefore been considered proper to make that distinction between deposits on call, which may be considered as representing the current commercial operations of the community, and deposits at interest which are regarded as loans to the Bank, and as representing a voluntary arrangement between the individual lending and the Bank. I may say, however, that, in stating what our propositions are, I have no desire to anticipate the judgment of the House and of the country. A full opportunity will be allowed of considering the scheme in all its phases, and I would therefore ask my hon. friends not to form a precipitate judgment, or to spring at conclusions, until they have had a full opportunity of calmly reflecting on the matter in all its bearings. If any hon. gentlemen have any practical suggestions to offer, they may rest assured that such suggestions will be

received in good part ; the Government being actuated by but one desire, that of seeing the circulation of the country placed on a sound basis. I hope my hon. friend, (Mr. Gibbs), who put a question to me a little ago, will not deny the Government the benefit of his experience with reference to the various features of the measure, instead of pronouncing judgment at once against the whole scheme. At the same time I must observe, that I think we have to look at other interests besides the mere interests of the Banks. We do not desire to engage in a controversy with our banking institutions. We do not wish to consider their interests as separate from the general prosperity of the country. But, if they will claim special privileges—if they will insist that they and they alone shall have the privilege of circulating that which the public shall accept as money—then we must separate their interest from the general interests of the country at large. But I do not believe we shall be forced into that course. I trust rather that they will meet us in the same spirit as that in which we desire to meet them, as reasonable men desirous of arriving by the best available means at a common object. If they display this spirit, I do not apprehend that there will be any serious or insurmountable difficulty in coming to a satisfactory understanding. So, instead of saying a word that would produce antagonism or bring about a conflict with these institutions, I would rather deprecate any discussion until there has been a full opportunity of considering the scheme with respect to all its merits or demerits. The amount then which the Banks will have to provide, assuming their deposits to be only what they were in 1868, and assuming their circulation to be based on Government securities, will be \$16,900,000 ; this being the amount of the circulation, *plus* 20 per cent. to be kept as a specie reserve, and *plus* one seventh of the amount of the deposits on call. They have on hand already, as I stated to the House, in specie, an average amount of \$8,900,000, and Government securities to the amount of \$3,300,000 ; making a total of \$12,200,000, leaving to be provided in addition in the course of seven years, only \$4,700,000, less than five millions of dollars. Now, I do not hesitate to say that the operation of this scheme cannot be otherwise than gradual and almost unfelt. What per-centage upon their average circulation, and what per-centage upon their average discounts is this? Suppose there is no new Banking capital provided, and suppose that the deposits do not increase, how much a year would they have to curtail their discounts or their circulation, in order to provide in seven years those five millions, and give the country the benefit of a sound and wholesome currency? Why, only  $5\frac{6}{100}$  per cent per annum on their average circulation and  $1\frac{4}{100}$  per cent per annum on their average discounts. Will any one tell me that this gradual and almost imperceptible contraction is going seriously to cramp the operations of the Banks ; even supposing they should curtail their circulation by this  $5\frac{1}{2}$  per cent and their average discounts by this  $1\frac{1}{2}$  per cent. for seven years?

Hon. Mr. HOLTON.—Will the hon. gentleman allow me to enquire whether the Banks will be at liberty to purchase the required Govern-

ment securities in the open market, or whether he proposes to prescribe to them a certain class of securities to be furnished by the Government?

HON. MR. ROSE.—Not at all. We will allow them to purchase the securities in the open market. They have already a large amount on hand, and proper arrangements will be made to see that the Banks have it in their power to gain what advantage they can, by purchasing on the best terms open to them. We certainly do not mean to restrict them as to this.

I have stated what the amount to be provided would be on the average circulation. I shall now state what it would be on the highest circulation: The highest circulation, 1868 (October), was..... \$15,120,252  
20 per cent on that for specie reserve—would be..... 3,024,050  
One-seventh of \$13,780,724, call deposits, held at that time is..... 1,968,675

Total amount to be provided by the Banks for the highest circulation .....	\$20,112,977
Specie held at that time.....	\$8,750,043
Government securities now held.....	3,035,206
	<hr/> 11,785,249

Being a difference of..... \$8,327,728  
Which is but 7.9 per cent per annum for the next seven years on the highest circulation (\$15,120,252), and 2.3 per cent per annum for the same time on the highest discounts (\$51,995,950). In these calculations I have put the case in the most unfavorable way for the Government, having included in them the Government circulation, that is, the circulation of the Dominion Notes. I should have stated that, in the operation of this scheme, we propose to discontinue and to absorb the present direct circulation of Dominion Notes; that the power of the Government to issue these notes shall be withdrawn, and that an absorption of the present Dominion Note circulation shall take place, as fast as the wants of the country for a circulating medium are otherwise provided for.

HON. MR. HOLTON.—Will the new Bank Notes have the quality of legal tenders?

HON. MR. ROSE.—Undoubtedly. I shall come to that point presently. I have stated that on the basis of the highest circulation, the amount to be provided in seven years would be \$8,327,728. That is supposing the specie held in reserve for the highest Government circulation, \$925,950, is not available. This ought not perhaps to be excluded from the circulation, because I have given the gross circulation at the highest figure including that of the Government. If that specie held by the Government is deducted, the amount to be provided on the basis of the highest circulation will be reduced to \$7,401,778, which is 7.05 per cent per annum for seven years on the highest circulation, and 2.03 per cent per annum for the same time on the highest discounts. Such will be the operation of the measure, as it affects the Banks as a whole. (Hear).



Let us now see—as I have observed an attempt to make a point out of this—how it is going to affect the Banks of Ontario. I take then the statement of five of the largest Banks—the Bank of Toronto, the Merchants' Bank, the Ontario Bank, the Royal Canadian Bank, and the Bank of Commerce—and I find the result will be as follows:

The average circulation of these five Ontario Banks is.....	\$5,049,652
20 per cent reserve is.....	1,009,930
$\frac{1}{7}$ average call deposits is.....	492,048

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The total amount to be provided is therefore.....\$6,551,630

To meet this they have on hand—

Average specie.....	\$3,481,404
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Government Debentures (March, 1869).....	1,096,373
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\$4,577,777

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Leaving to be provided by them in the next seven years.....\$1,973,853

Which is but 5.584 per cent. per annum for seven years on their average circulation (\$5,049,652,) and 1.926 per cent. per annum on their average discounts (\$14,636,216,) for the same time. I may remark that I shall take care that these figures are published in a shape in which they may be examined not only by hon. members, but by the country at large, as I think it is of importance that the precise facts as to the operation of the measure should be accurately known, so as to allay any needless apprehension which may have arisen on this subject, and I think this will be the result, when the gradual and easy operation of the scheme, as shown by these figures, is understood by the country. Had not a sense of public duty, and the resistless force of passing events impelled us, we should have been very glad not to have been under the necessity of dealing with this matter for some time to come. But, in dealing with the question of the renewal of the old charters, and the applications for new charters which are in the hands of various hon. gentlemen, we have had to choose, either to perpetuate the wrong features of this and that existing system, or to adopt a policy, safer and better adapted to the new condition of things in which we find ourselves. Well, I have given the figures based on the average circulation of these five Ontario Banks. But, as the circulation in Ontario is liable to great expansion and contraction, I shall give also the calculations, as based on the highest circulation. While desirous to introduce uniformity and safety, in regard to the circulation, I do not desire to overlook the special and peculiar interests of any one Province. It is our wish and duty to consider how we may guard beforehand against any possible evil consequences, by seeing how far the operation of any proposal we may make is to effect not only the commerce of Quebec and Ontario as a whole, but how far it is to affect the special interests of either one of the Provinces. It is necessary, therefore, to consider the matter in view of the expansion, which, in the peculiar circumstances of Ontario, at times enhances the amount of the circulating medium of the country.

The highest circulation of these five Ontario Banks last year, was (in



October).....	\$6,883,370
20 per cent on that, as reserve, is.....	1,376,674
$\frac{1}{7}$ call deposits then held was.....	567,186

Making a total of.....	\$8,827,230
The specie then held was.....	\$4,013,468
The Government Debentures held (March, 1869) were.....	1,096,373
	<hr/> 5,109,841

Making a difference, to be provided, in the case of the highest circulation, of..... \$3,717,389  
which is 7.730 per cent per annum for seven years on the highest circulation (\$6,883,370), and 2.988 per cent per annum for the same time on the highest discounts (\$17,771,227).

Now, sir, if there is any truth in these statements, I think no one will say that the operation of the scheme in this gradual way will needlessly cramp the facilities which the Banks have for giving accommodation to the public. I have reviewed this question hitherto, putting the case on the most unfavorable footing for the Government, as if there would be no increase of banking capital, and no increase of deposits. But we may presume that the commercial wants of the country will probably increase. This will make a further demand on the Banks; but, if the increased business affords them a reasonable remuneration, I am satisfied there will be no lack of additional capital to enable them to give the requisite accommodation. Look at what we witness during this very Session. Are there not now before us Bills asking for new incorporations, others asking for an increase of capital to existing Banks, all of them seeking to provide the additional banking accommodation required by the public? I think it will be admitted that the power of the Banks to meet the business wants of the country does not depend on their circulation so much as on the amount of their capital and deposits. Now let me shew how largely the capital, and especially the deposits have increased within the past few years, as compared with the circulation. From March, 1862, the time when our statistics began to be accurate, until March, 1869—a period of seven years—the circulation only increased 6 per cent, while the capital increased 9 per cent, and the deposits 90 per cent. Now, considering the increased facilities which Railways give for bringing the circulation to the points where it is wanted, it is not likely that the circulation will increase so fast as the capital demanded for our growing commercial operations will increase. When we find that, during the last seven years, deposits and capital have been the two sources to which the Banks have mainly looked for carrying on more extended operations—the one having increased 90 per cent, and the other 9 per cent, while the increase of Bank circulation was less than 6 per cent—it is reasonable to suppose that during the next few years that state of things will not be very materially altered.

Having thus referred to the objection, that the working of the measure would needlessly cramp the commercial operations of the country, I come

now to another point which I have heard very much discussed. It is objected that there is not, in a scheme of this nature, sufficient elasticity to meet the peculiar demands of the Province of Ontario, during two or three months of the year,—especially October and November—when largely increased facilities are required for moving the crops. Let me ask the calm consideration of the House with reference to this matter. Let it be remembered that, under the proposed system, the Banks will, for every dollar of Government securities which they deposit in return for the circulating notes, be receiving from the Government a rate of interest to be specified. And I ask, will it be any serious injury to the Banks, that for the purpose of meeting this necessary expansion they should have to retain as a reserve, in their vaults, \$3,000,000, bearing a fair rate of interest? It is not as if it were dead money, as if it were specie, yielding them nothing; but when the \$3,000,000 extra which they require at a certain season to move the crops is bearing interest all the time, I think they can very well afford to keep it for that purpose. If they have at their disposal for carrying on the business of the country, \$30,000,000 of deposits, and \$15,000,000 of capital, over and above the amount of circulation, I think the \$3,000,000 of reserve, required to meet the expansion in the autumn, yielding all the time a reasonable rate of interest, bears but a trifling proportion to the whole funds they have at their disposal. At the same time, I confess this is one of those things with regard to which I shall be glad to hear the opinions of practical men, if they will look at the proposed policy, not with reference to how it will affect this institution or that institution, but with reference to how it may affect the general interests of the country at that particular season of the year. It must of course be remembered, as I have said, that the means in the hands of the Banks for affording accommodation to the public are not confined to their circulation; and that the amount required to meet this expansion, bearing to the whole capital available the small proportion of \$3,000,000 to \$60,000,000, would not be lying idle in their hands, but would be bearing interest, being represented by bonds in the hands of the Government. The same necessity for expansion at certain seasons of the year exists in the United States, and we do not find that the facilities for moving their crops are in any way curtailed by the system which prevails there. We know that, when required, there is a movement of circulation there from East to West, and I cannot conceive any reason why the same gradual movement of circulation from East to West should not take place with ourselves. At all events, I beg hon. members to consider this, that the presumed difficulty with reference to this requisite expansion cannot be experienced until five or six years from this time; because the curtailment of the Bank circulation is to be so gradual that it would not amount to a curtailment of their resources in anything like the proportion of the expansion of the circulation required in certain months of the year for moving the crops. Therefore this difficulty cannot arise for several years to come, and, when it does arise, if it should be found, in the practical operation of the proposed policy, that this difficulty, without some modification of the scheme, is unsurmountable, provision can then be made for it.

I do not, Sir, desire to argue as to either one or the other feature at this moment—or to say more than I have thought necessary to say, rather for the purpose of explanation than argument. As I mentioned at the outset, I do not desire to hurry the judgment of either the House or the country with reference to this Banking measure. It is too important a question to be inconsiderately or precipitately brought to a conclusion. (Hear, hear). It is a measure which I desire to carry, not only with the support of the House; but with the judgment and support of the country also. (Hear, hear). And for these reasons I do not wish it to be taken up again by the House until a fair period has been allowed for its consideration. (Hear, hear.) I have now, I think, indicated the general features of the proposed plan. The resolutions which I hold in my hand—and which will be submitted to the House in a few moments—indicate some further provisions, which, in the opinion of the Government, it would be desirable to impose, either in granting new charters, or in extending the charters or capital of Banks already in existence. The resolutions are tolerably lengthy, and I will leave them for hon. gentlemen to read at their leisure, contenting myself at this step with giving a mere outline of the proposed plan, which they embody. The leading points then are briefly these:—The Government proposes to withdraw its own note circulation gradually—within a period of seven years—in proportion as it is replaced by the circulation of the Banks. It is proposed to prolong the charters of the existing Banks for ten years, by proclamation. This is done in order to relieve the Banks of the necessity of coming before the House, and each one for itself applying for a renewal of its charter,—and in order to save the House the trouble of dealing with them separately. We propose to do this in 1871, when the Banks have indicated their readiness either to abandon their circulation, or replace it gradually by the Government circulation. We propose further to require from the Banks a new and more satisfactory form of return in respect to their operations; and in providing for this, we have endeavored to provide against the possible danger of giving too much information; information which would needlessly embarrass such institutions. Rendering proper Bank returns for the information of the Government is one thing; but making the fullest returns for publication is another and quite a different thing. Banks might for instance allow large sums to lie over, but it might not be in the public interest nor that of the Bank that an exact statement of them, unaccompanied by all the circumstances which might affect them, should be blazoned forth in the *Official Gazette*. While avoiding this, we have endeavored to place the public in a position to be able to form a correct judgment as to the management of the Banks, and also to give Stockholders that information which they are entitled to. It is also proposed to give Stockholders a more direct control over the management of the Bank, and to leave to them, in a great measure, the framing of such provisions as will place the operations of the Directors whom they entrust with carrying on the business of the Bank, on such a



footing as shall be most desirable to the Shareholders. With the Shareholders should also rest the question as to how much discount may be given to Directors or others—the places at which Bank agencies may be established—and in many other ways they should get more direct control impelling them to exercise a more complete and continued supervision of the affairs of the Bank, thus placing a check on any unwholesome course of the Directors. The Shareholders under our measure need no longer allow the Directors to manage affairs as they like, for it gives them such opportunities of supervising the affairs of the Bank that they will have themselves only to blame when anything goes wrong. Then we propose to afford better means of enforcing the double liability which attaches to some Bank charters. We also propose to provide that when a Bank shall cease to redeem its circulation in specie, after a certain period a Receiver shall be placed in it, and its affairs wound up. There is one leading feature of the scheme which I ought perhaps to have brought more prominently before the notice of the House. It is proposed that the notes to be given by the Government to the Banks in exchange for the Government securities shall be legal tenders everywhere, except at the one place of redemption. One object which it is believed this arrangement will in a great degree accomplish, will be to prevent any senseless panic with reference to the circulation. It is not likely, under such conditions, that there will be anything like a run on any of the Banks, because if a Bank's notes are a legal tender everywhere, except at the one place of redemption, there will be no motive whatever for running to get gold for them; and, in addition, the public at large will be placed in a much better position for these notes circulating throughout the whole Dominion, would not be subject to discount in any of the Provinces. (Hear, hear.) It is proposed to make the notes redeemable in the chief city of the Province in which the head-quarters of the Bank are.

MR. MCKENZIE.—The hon. gentleman takes credit to himself for avoiding in this way the payment of any percentage. But is that really avoided? I say nothing is gained; for in fact, whenever anyone wants to get the gold he must pay a percentage.

HON. MR. ROSE.—The notes are made a legal tender for every purpose whatever. Gold will then be wanted only for foreign exchange.

MR. LAWSON.—Are the notes to be made redeemable by each Bank issuing them?

HON. MR. ROSE.—Undoubtedly. The notes are to be redeemed at its head office.

MR. YOUNG.—Each Bank will only redeem its notes in specie at one point?

HON. MR. ROSE.—The redemption must be made in the chief city of the Province where the head quarters of the Bank are.

MR. LAWSON.—That is—the redemption is very much the same as that of notes at present?

HON. MR. ROSE.—The same.

MR. GIBBS.—If a bill is payable in Halifax, and a party in Toronto



holds it, and desires to get gold for it, either the rate of exchange or the express charges must be paid before he can do so.

HON. MR. ROSE.—The hon. gentleman must recollect that in this instance the note issued in Halifax is a legal tender at par in Toronto and therefore may be tendered at par in payment of anything. If then a man having in his possession that which is as good as gold chooses to send it to Halifax to be converted into specie, of course he must incur the expense of sending it there. But, with the note as good as gold, and being a legal tender for every purpose, the motive for incurring such expense is taken away. These are matters all of which, I can assure the House, have been thoroughly discussed by the Government. I think I have now given a fair summary of the general features of the resolutions, which I will place in the hands of the House, and which will be distributed in a few moments. And, in concluding, I must express the hope that Hon. gentlemen will approach the consideration of these resolutions without any preconceived bias against them, and without any other desire than that of promoting the best interests of the country. (Hear, and cheers). There is no desire to enforce this measure until it is understood by the House and country. (Cheers). And the most ample information which we can give the House on the subject will be cheerfully given.

HON. MR. J. H. CAMERON—I hope that resolutions so important in their character, and involving material changes in our financial system, are not to receive the force of an Act of Parliament this session?

HON. MR. ROSE—My hon. friend from Peel is well aware of the measures now before the House. No less than eight or ten Banks are asking for either an extension of their charters or for their renewal. The position then in which the Government finds itself placed is such, that it must deal in one way or another with these interests. It is my intention to propose that the House go into Committee of the whole on Friday next to consider these resolutions.

The hon. gentleman then moved a resolution to this effect, which was carried, after a brief debate.





